Imperial Oil Limited Annual Report 1974

Canada will be able to develop its potential energy reserves quickly and effectively if investors have the confidence they will get a fair return on their money.

Advance copy not to be released until Friday, March 21, 1975

FILE

Imperial Oil Limited Annual Report 1974

DIRECTORS

J.A.Armstrong
J.A.Cogan
J.W.Flanagan
J.H.Hamlin
A.R.Haynes
J.G.Livingstone
D.K.McIvor
R.G.Reid
W.O.Twaits [(1)]

OFFICERS

Chairman of the Board and Chief Executive Officer
J.A.Armstrong

President
R.G.Reid

Senior Vice-Presidents
J.A.Cogan
J.W.Flanagan
J.H.Hamlin
A.R.Haynes
J.G.Livingstone
D.K.McIvor

Vice-Presidents
J.F.Barrett
A.M.Lott
D.D.Lougheed
D.H.MacAllan
G.R.McLellan
A.G.Moreton
V.Sirois
P.Stauft
W.A.West
G.K.Whynot
A.R.Haynes [(2)]
D.W.McGibbon [(4)]

General Secretary
D.H.MacAllan
G.M.Henderson [(3)]

Comptroller
G.R.McLellan

Treasurer
A.M.Lott
D.W.McGibbon [(4)]

General Counsel
J.F.Barrett, Q.C.

(1) April 22, 1974, Mr. Twaits retired as a Director and Chairman of the Board. Mr. Armstrong was elected Chairman and Mr. Reid President.

(2) Elected a Senior Vice-President April 22, 1974

(3) Retired December 31, 1974

(4) Retired January 31, 1975

Imperial Oil Limited was incorporated under the Canada Joint Stock Companies Act, 1877 on September 8, 1880. Its head office is at 111 St. Clair Avenue West, Toronto, Ontario M5W 1K3.

Imperial Oil Limited shares may be transferred at the following offices: head office of Imperial Oil Limited; principal offices of Montreal Trust Company at St. John's, Nfld., Charlottetown, P.E.I., Halifax, N.S., Saint John, N.B., Montreal, Que., Toronto, Ont., Winnipeg, Man., Regina, Sask., Calgary, Alta., Vancouver, B.C.; Bankers Trust Company, New York, N.Y.

The annual meeting of shareholders will be held at 11:00 a.m., Friday, April 25, 1975, in the Canadian Room, Royal York Hotel, Toronto, Ontario.

SUBSIDIARY COMPANIES

W.H. Adam, Ltée, Ltd.
Albury Company Limited
Allied Heat and Fuel Limited
Archibald Fuels Limited
Atlas Supply Company of Canada Limited
Bourque Brothers Limited
Building Products of Canada Limited
Centres Citadelle Limitée/Citadel Centres Limited
Champlain Oil Products Limited/
Produits Pétroliers Champlain Limitée
Delta Rope & Twine Limited
Devon Estates Limited
E S F Limited
Esso of Canada Limited
Donat Grandmaitre Limited
Hall Fuel (1965) Limited
Hi-Way Petroleum Ltd.
Home Oil Distributors Limited
Imperial Oil Developments Limited
Imperial Oil Enterprises Ltd.
Imperial Oil of Canada Shipping Company Limited
The Imperial Pipe Line Company, Limited
Ioco Townsite Limited
Lou's Service (Sault) Limited
Maple Leaf Petroleum Limited
Midwest Fibreboard Ltd.
Mongeau & Robert Cie Ltée
James Murphy Fuel Oil Company Limited
Nisku Products Pipe Line Company Limited
Northwest Company, Limited

AR35

News about Imperial Oil for shareholders

JULY. 1985

Shareholders' comment cards provide management with useful information

A total of 597 shareholders returned comment cards provided with the 1985 annual meeting mailing.

The most frequent questions concerned petroleum product pricing, the continued growth of self-service gasoline stations and other product-marketing issues. Responses to shareholders have noted the extreme competitiveness of the petroleum products business and the continuing instability of markets, especially for retail motor gasoline.

A substantial majority of shareholders commenting on the overall management of Imperial expressed specific approval of the manner in which the company is being run.

Reaction to the 1984 dividend was mixed. Some respondents expressed pleasure at the $0.20 per year increase in the dividend rate in the fourth quarter of 1984. Others considered the current dividend to be too low.

Thirty six shareholders praised the 1984 annual report for its quality and clarity, although 27 respondents thought that it "must have been expensive". In fact, at a cost of $4 per copy, or one-fifth of a cent per share, the 1982, 1983 and 1984 reports were produced for about the same cost, which was 50 percent less than the 1980 and 1981 reports. Responses to shareholders emphasized that aside from the legal requirement to produce an annual report, a high-quality report serves both the company and its shareholders.

Fifty two shareholders said they value and appreciate the "Imperial Oil Review".

A number of shareholders suggested that Imperial's annual meeting be held in Canadian centres other than Toronto. Although the company continues to examine other alternatives, including electronic communications which might allow shareholders in other centres to participate in the annual meeting, the largest concentration of Imperial's shareholders is in Toronto.

A number of questions were raised concerning the recent Western Accord energy agreement and the deregulation of crude oil prices. As the company has stated publicly, the Western Accord is of significant benefit to the Canadian oil industry and the Canadian economy in general.

Imperial and Expo '86: a "Super, Natural" Fit

Expo '86, the World Exposition on Transportation and Communications, will be held in Vancouver from May through October 1986, and Imperial Oil will be a major corporate sponsor and participant.

Esso Petroleum Canada has been appointed the Official Petroleum Supplier to Expo '86, and Imperial will sponsor a theme pavilion, featuring a whimsical retrospective on transportation through the ages, in the restored CP Rail roundhouse on the Expo site, now to be known as the Esso Roundhouse.

This is particularly appropriate for Imperial. Not only have the company's fuels and lubricants contributed greatly to the evolution of transportation, but Canada's — and perhaps the world's — first gasoline station was opened by Imperial in Vancouver in 1907.

Esso Petroleum will undertake extensive marketing programs to promote Expo '86. Selected Esso stations across Canada will serve as Expo information centres, there will be a major national promotion on an Expo theme as well as special programs for Esso credit-card holders, commercial customers and employees, and extensive use will be made of the distinctive Expo '86 logo on tankers and products packages.

Shareholders have already received an invitation to participate in the unique "Esso Heritage Brick Program". For $19.86, participants can have their names engraved on one of the bricks that will pave the Esso

Roundhouse courtyard. Proceeds from the program will go to the B.C. Heritage Trust.

SPARC Highlights Imperial's Research Programs

Research and development are the means by which an industrial corporation ensures its future existence and its continued success. For Imperial Oil, "R & D" means several things: developing new products and improving existing products to meet customers' needs; improving refining and manufacturing processes to increase efficiency and productivity; and finding new and better ways to locate, recover and develop the hydrocarbon and other natural resources on which the company's future will depend.

Imperial is one of the largest private-sector investors in research and development in Canada. The company employs some 700 people in research across the country, including more than 250 scientists and engineers. And the $70 million Imperial spent on R & D in 1984 led all Canadian petroleum companies, and trailed only a few genuinely "high-tech" corporations.

Imperial also has access to technology developed at 11 major Exxon research labs, the world's largest pool of petroleum technology. For every dollar spent on research in Canada, the company has direct access to about 10 dollars worth of research undertaken by other Exxon affiliates around the world.

Imperial's largest research centre located in Sarnia, Ontario, performs work for both Esso Petroleum and Esso Chemical and holds Exxon worldwide responsibilities for certain areas of research in lubricants and plastics. While the Sarnia centre's reputation was built on lubricant research dating back to the 1920s, it has broadened its efforts to include all areas of petroleum and petrochemical processes and product technology including synthetic fuels, upgrading heavy crude oil, plastics technology, and processing to meet environmental standards.

Another major research facility in Calgary seeks better methods for exploring and extracting natural resources. Established in 1955, the centre has become a world leader in heavy crude oil production and Arctic exploration, developing technologies used today at Cold Lake and Syncrude and in the Beaufort Sea. Current programs focus on heavy oil, enhanced recovery, and improved technologies for frontier exploration and production.

The company also operates a research centre in Montreal, acquired in 1964 as part of Building Products of Canada Limited, which does research on building materials.

A recent highlight of the company's commitment to research was the successful completion of a $40 million facility at Sarnia known as Sarnia Process and Automotive Research Centre, or SPARC. Completed in 1984, SPARC is a world-class facility for developing and testing fuels and lubricants as well as petroleum refining processes. The most advanced and comprehensive facility in the Exxon world research network, it ensures that Esso Petroleum Canada, and Canada itself, remains at the leading edge in the development of new, improved and competitive petroleum products in response to customer needs.

The centrepiece of the SPARC facility is an all-weather chassis dynamometer which allows for intensive technical tests of engine fuels and lubricants under a wide variety of simulated road-driving conditions. Vehicles ranging from front- and rear-wheel drive cars to tandem-axle trucks can be comprehensively tested at speeds up to 110 km/hr and in temperatures ranging from minus-35 to plus-40 degrees Celsius.

SPARC also houses a set of computer controlled engine test stands which permit the rigorous testing of products in virtually any engine, from chain-saws and outboards to the largest diesel engines. A third facility includes some 40 "pilot plants" such as powerformers, hydrofiners, lube and chemical plants, etc., to develop and test new processes for petroleum products and petrochemicals.

Investor Relations
July, 1985

News about Imperial Oil for shareholders

Imperial's shareholders speak

Imperial Oil is committed to keeping all shareholders fully informed. Along with the company's third quarter interim report, a representative sample of 6,000 individual shareholders in Imperial Oil — those who hold their own certificates and whose names are on the company's records — were sent questionnaires by Investor Relations.

The purpose of the questionnaire was to obtain a "profile" of individual shareholders, and to hear their views on the management of the company and the various company communications they receive.

More than a thousand individual shareholders completed and returned the questionnaire. We're very grateful to those who took the time to respond to the survey. Following are some of the things we learned.

- Approximately 75 percent of our individual shareholders have held Imperial stock for more than ten years, while less than 1 percent have held for two or less years.
- Asked their reasons for holding Imperial shares, 56 percent cited a combination of long-term appreciation and income. The next largest grouping of 24 percent hold for long-term appreciation only, while 10 percent feel they have safety of principal and another 10 percent hold for dividends.
- Questioned on their current intentions with regard to the stock, 71 percent said they plan to hold all their stock at present, 11 percent will buy more, 4 percent will sell some, and 3 percent will sell all.
- About 19 percent of individual shareholders feel their investment in Imperial has been "highly successful", while 56 percent feel it has been "moderately successful." "Somewhat disappointing" is the verdict of 20 percent, while 4 percent feel it had been "very disappointing".
- About 80 percent feel the company is "well-managed", while 91 percent feel management is either "highly competent" (57 percent) or "moderately competent" (34 percent).
- In response to five "Imperial is..." questions, about 70 percent feel the company is a leader, socially responsible and environmentally responsible. About 61 percent agree that Imperial is an innovator, and 49 percent that the company is dynamic.
- Almost 75 percent find the company's interim reports extremely useful or very useful, and 85 percent think they're easy to read.
- More than 65 percent find the annual report extremely or very useful for making investment decisions. The following sections are the most read: shareholders' message 81 percent; shareholder information 76 percent; financial statements 70 percent; corporate highlights 58 percent; operations review 57 percent; financial notes 43 percent.
- Imperial's individual shareholders spend a surprising amount of time reading the annual report. Close to 25 percent study it for more than an hour, and 18 percent spend from 50 to 60 minutes.

All in all, the survey revealed a lot about Imperial's individual shareholders. While most are extremely positive about the company's management and communications efforts, the survey gave Investor Relations some good ideas to further improve the service to shareholders.

Imperial's annual report best in Canadian business

Imperial Oil's 1983 annual report won the coveted *Financial Post* Gold Award as the overall best in Canada last year, as well as the best in the petroleum industry. Imperial's

report was also judged by *Oilweek* magazine as the best produced by an integrated oil company. In accepting the *Financial Post* award, Imperial's chairman and chief executive officer Don McIvor said the award was especially significant because the 1982 and 1983 reports were produced for about half the cost of earlier reports.

New "One-Stop" retail concept tests in Ottawa

Esso One-Stop, an innovative retail concept, was introduced on a trial basis by Esso Petroleum Canada at two Ottawa locations in late November. Each One-Stop outlet includes self-serve, multiproduct gasoline dispensers, a company-run mini convenience store for groceries and other merchandise as well as automotive products, and a 24-hour, coin-operated roll-through car wash. One location also includes an automated banking machine.

Initial customer response has been highly favorable. "Customers like the convenience of being able to buy gasoline and groceries, wash the car and do their banking all at the same spot," says Esso Petroleum marketing vice-president Roger Purdie. Along with the 12-month market test in Ottawa, consideration is being given to expanding the test in other areas.

"Peewee to Pro" hockey involvement for Esso

Following two December announcements, Imperial Oil and the Esso brand are now associated with Canadian hockey at virtually every level, amateur and professional.

Esso Petroleum is now the sole corporate sponsor of the Esso Program of Excellence, a project of the Canadian Amateur Hockey Association staging international competitions at several junior age levels in preparation for the 1988 Winter Olympics in Calgary. Esso Petroleum is also a co-sponsor of Team Canada and Canada's Olympic hockey program. These new programs complement the company's advertising on *Hockey Night in Canada*, participation in the recent Canada Cup, the Esso Medals of Achievement program, and sponsorship of the Esso Challenge Cup international peewee tournament, Minor Hockey Week in Canada and the National Referees' Certification Program.

Investor Relations
February, 1985

Imperial Oil Limited

111 St. Clair Avenue West
Toronto, Ontario
Canada M5W 1K3

Arden R. Haynes
Chairman and
Chief Executive Officer

May 1989

Dear Shareholder:

I recently wrote to you about a change to the company's dividend reinvestment and share purchase plan that provides shareholders with a five-percent discount on shares purchased with reinvested dividends.

Today I would like to outline another equity-financing initiative — a new issue of Class A shares. We've asked Gordon Capital Corporation, as lead underwriter, to communicate this offer to our existing shareholders. Enclosed is a letter from Gordon Capital, along with a preliminary prospectus and other material related to the offer.

The money that we expect to raise through these two measures — enhanced dividend reinvestment and the issue of new shares — will be used to increase the equity portion of our capital structure following the purchase of Texaco Canada Inc. As such, it will make a significant and valuable contribution to establishing a sound and stable long-term financial base for our company.

Yours very truly,

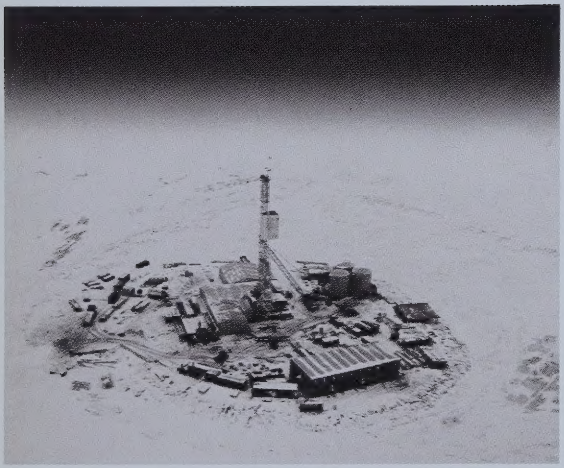
Arden R. Haynes

Imperial Oil

Oval Natural Gas Company Limited
J.P. Papineau Ltée/Ltd.
Poli-Twine Corp. Ltd.
Polybottle Limited
Renown Building Materials Limited
Les Restaurants Le Voyageur Inc.
Robbins Floor Products of Canada Ltd.
Seaway Bunkers Limited
Servacar Ltd.
Stanmount Pipe Line Company
Transit Company, Limited
Western Oil & Trading Company Limited
Winnipeg Pipe Line Company Limited

PRINCIPAL INVESTMENTS AND PERCENTAGE INTEREST

Interprovincial Pipe Line Limited 32.8%
Montreal Pipe Line Company Limited 32%
Rainbow Pipe Line Company, Ltd. 33.3%
Tecumseh Gas Storage Limited 50%
Trans Mountain Pipe Line Company Ltd. 8.6%



Cover: Netserk B-44, the fifth artificial island Imperial has built for exploration in the shallow waters of the Beaufort Sea.

Financial and Operating Highlights

FINANCIAL*	1974	1973
	Millions of dollars	
Earnings	290	227
Dividends	104	104
Revenues	3,713	2,648
Capital and exploration expenditures	404	333
Taxes charged against income	375	251
Total taxes generated	944	554
Crown royalties	251	81
	dollars	
Earnings per share	2.23	1.75
Dividends per share	.80	.80
	percentages	
Earnings as a percentage of average		
shareholders' equity	21.0	19.1
capital employed	15.6	14.1

*1973 restated for change to tax allocation for producing-well costs.

OPERATING	1974	1973
	Thousands of barrels per day	
Petroleum product sales	443	449
Crude oil processed at refineries	438	441
Crude oil and natural gas liquids		
gross production	337	345
net production	224	275
Natural gas sales (millions of cubic feet per day)	421	480
Gross proved reserves**		
crude oil and natural gas liquids (millions of barrels)	1,206	1,338
natural gas (billions of cubic feet)	2,607	2,868

** Does not include Beaufort Basin discoveries or Syncrude, Cold Lake and other heavy oils.

Contents

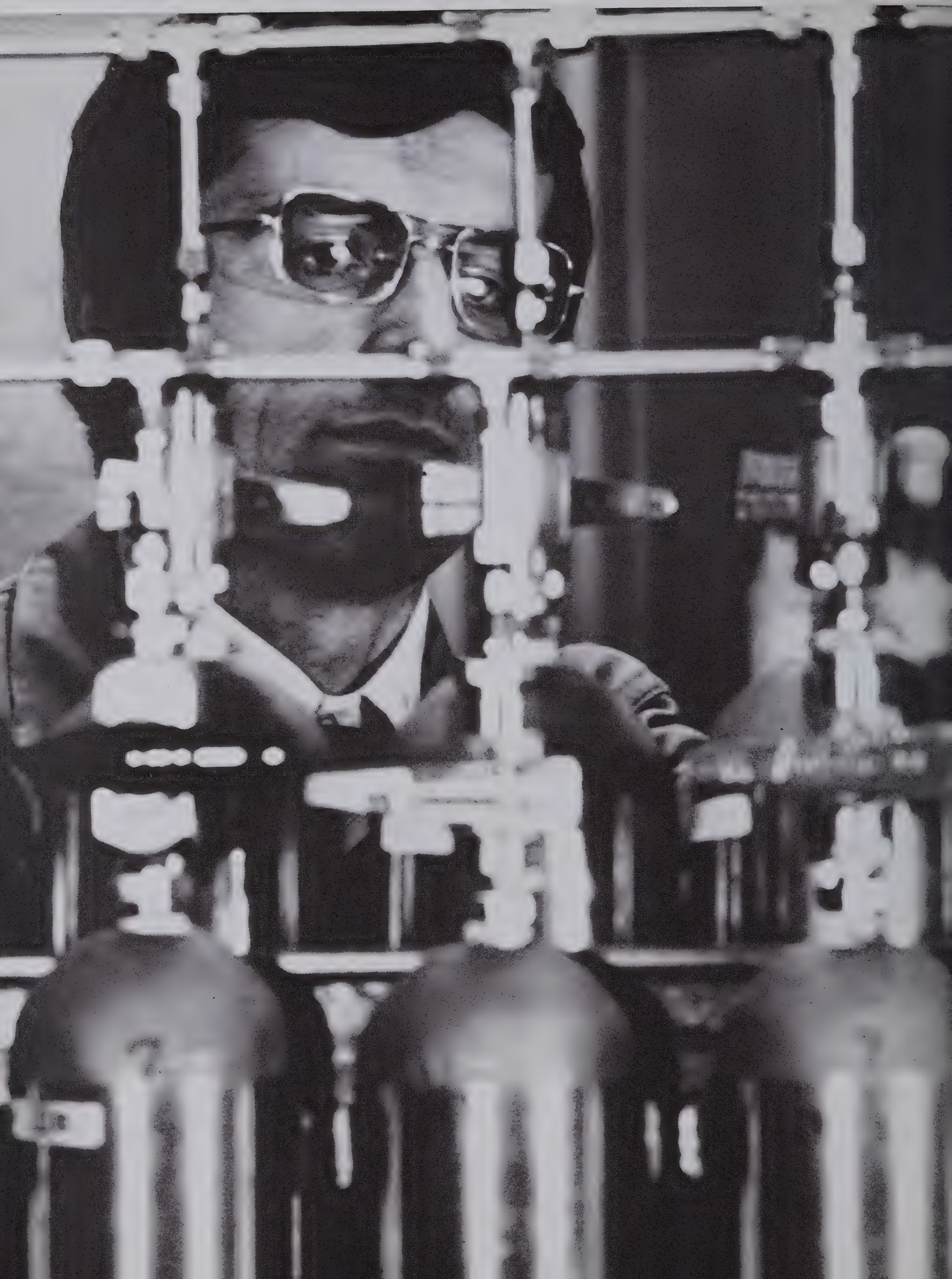
Changes are occurring in Canada's business environment, challenging businessmen to create greater understanding of their activities. People in business must make clear how well-intentioned tax policies, market controls, and other regulations can work against the interests of the public they are meant to serve.

Canada's economy is responsive to the laws of supply and demand. Tinkering with these laws by substituting price controls or other artificial measures may reduce some short-term irritations, but it cannot substitute for basic economic forces. Controls, as history has shown both here and abroad, have made worse the situations they were designed to correct. In simplest terms, keeping the price of petroleum artificially low leads to wasteful consumption and, by retarding the development of additional supplies, creates eventual shortage.

This report sets out some aspects of the petroleum industry and its importance to Canada. It also highlights many of the ways that public policy affects the industry's operations and, in turn, the future of the Canadian economy.

J. A. Armstrong, Chairman and Chief Executive Officer

Drilling crew installs casing at a new well in Alberta drilled to increase production from an existing field.



Profits are the fuel of the economic engine—without them, it stops. Some Canadians appear to misunderstand this role that profits play in our economic system. Others are confused about their size, believing profits reach as much as 50 percent of revenues. These misunderstandings are unfortunate and, if they led to demands to eliminate profits, could be dangerous.

Here is a breakdown that relates Imperial's 1974 profits to the size and scope of the company's costs and revenues:

HOW IMPERIAL SPENT EACH DOLLAR OF REVENUE

	1974	1973
Revenues (millions of dollars)*	$3,713	$2,648
Disposition of each dollar of revenue		
Purchases	$ .54	$ .53
Operating expenses	.13	.17
Employees' salaries, wages, and benefits	.08	.08
Payments to governments including royalties and taxes*	.17	.13
Profits		
Paid out to shareholders	.03	.04
Retained and used in the business	.05	.05
	$ 1.00	$ 1.00

*Excludes taxes collected for governments amounting to $569 million in 1974; $303 million in 1973.

Research into heavy-oil production uses laboratory model to study the flow of oil from the Cold Lake area of Alberta.

It is estimated that by 1977 Canada's present oil fields will not be able to produce enough oil to meet our demands. We will have to depend more on imported oil, despite economic penalties and political uncertainties in the producing countries.

Oil from frontier discoveries cannot start serving southern markets before the early 1980s. Materials and skilled labor are in great demand; at best only one tar-sands plant can be built and put into operation every two years. But Imperial believes that with an all-out effort, Canada's oil production could match this country's needs again.

Horsehead pumps at Cold Lake, Alberta. Several "directional" wells are drilled from a single location at this site.

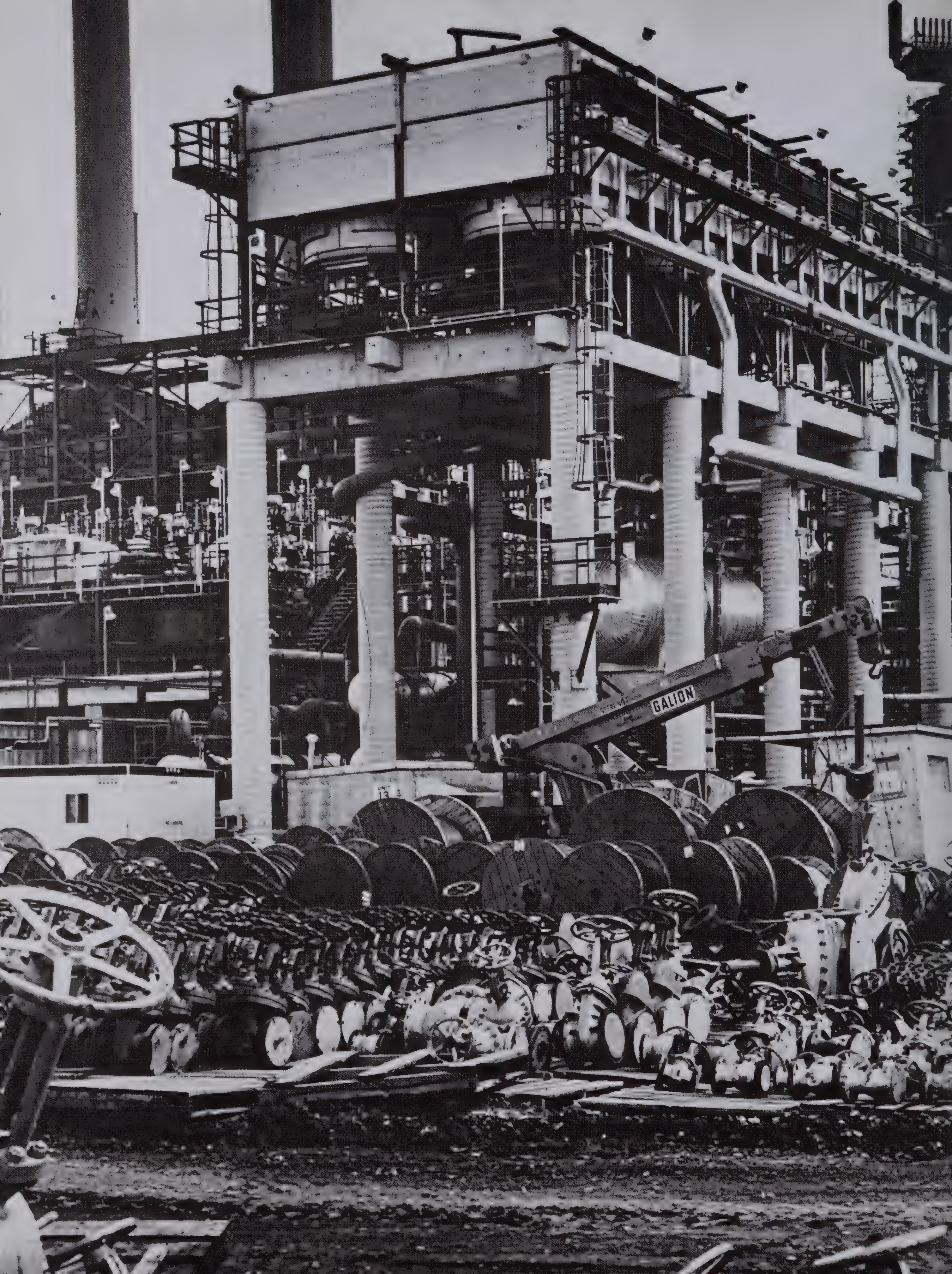
Most of Canada's remaining reserves of free-flowing petroleum lie in the Arctic and the Atlantic, over a total area of about 1¼ million square miles. The Geological Survey of Canada estimates they contain the equivalent of about 180 billion barrels of petroleum in the form of oil and gas.

The industry has been exploring these areas for 10 years, at a cost to date of more than $1 billion. To develop fields discovered, to build necessary transport systems, and to continue exploration will take many billions of dollars. Development of heavy-oil resources will cost billions more.

The Canadian oil industry is highly competitive. More than 500 exploration companies are engaged in a struggle against time, the natural odds, and increasing costs to find economic deposits of petroleum. Where one company gives up, another may succeed—this happens time and again in the oil business. This competition assures the most effective discovery and development of Canada's natural resources with a thoroughness no single agency could provide.

Similarly, a competitive industry is the most efficient instrument for the provision of quality products at fair prices.

Barge-mounted cranes arrange material to form Netserk B-44, Imperial's fifth artificial island in the Beaufort Sea.


GALION

Supplying petroleum for Canada is not just a question of financing exploration for and development of new sources of crude oil and natural gas. Very large investments are needed to maintain and expand refineries and petrochemical plants as well as marketing and distribution systems. For Imperial Oil alone, these costs are expected to exceed $1 billion over the next 10 years. The cost of replacing the crude oil and products in Imperial's inventory increased $112 million in 1974 and will require an additional investment of $550 million over the next 10 years.

To finance these capital costs, the company will have to generate large earnings and attract significant amounts of new capital from investors.

Imperial's new 140,000-barrels-per-day refinery at Strathcona, near Edmonton, is scheduled to begin operation in 1975.

Operations Review

The operations and activities of Imperial Oil Limited continued at a high level during 1974, despite increasingly serious inflation, the actions of governments, and an economic slow-down in the latter half of the year.

Earnings for the year were $290 million, an increase of $63 million over the 1973 figures. The chemicals operations were major contributors to the higher earnings. For the first time in many years, earnings from production of oil and gas were not significantly increased. Production volumes were lower than in 1973. Although there were significant increases in the price of oil and gas, increased taxes and royalties resulted in only modest earnings growth from this source.

Income taxes increased $120 million (82 percent) to a total of $266 million. Royalty payments to governments more than tripled, rising from $81 million to $251 million.

Inflation has affected not just present operations; because of increasing project costs, its effects will be felt for many years.

Nevertheless, 1974 was a good year, with a multi-zone discovery reported in the Arctic, much progress made on capital projects, and changes in business practices that should bring increased benefits to customers, shareholders, employees, and associates.

The Effects of Government Actions

During 1974, actions by both federal and provincial governments affected the company's financial position and posed serious problems for forward planning.

The producing provinces raised their royalties substantially on oil and natural gas production. In its budget of November 18, the federal government included a number of provisions affecting resource taxation. Of these, the one with the greatest impact was the proposal that provincial royalties could not be deducted when calculating income for federal tax purposes. This was made retroactive to May 6.

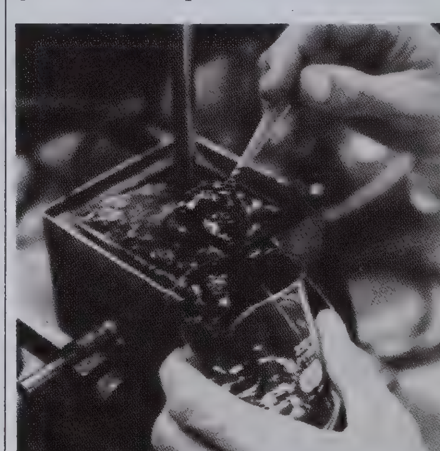
As a result of the federal government budget and the high provincial royalty rates, the company's earnings for 1974 were significantly reduced. Shareholders were advised in a letter dated November 29 that the severe reduction in the company's available cash flow has reduced planned 1975 capital and exploration expenditures by about $115 million.

In December of 1974, the government of Alberta announced its intention to modify the higher royalties on oil and gas production it imposed early in the year. It also announced that it would rebate to the producer the province's share of additional taxes accruing from the non-deductibility of provincial royalty payments. Saskatchewan announced its intentions to allow deductibility of royalties in computing provincial income tax for 1974. British Columbia has announced that it intends to implement procedures under which the double-taxation impact on natural-gas producers will be eliminated. These announcements by the provincial governments are encouraging but, as the company has stated publicly, more needs to be done. As this report went to press, neither Saskatchewan nor British Columbia had modified their very onerous oil royalty rates. The royalty rate that will apply to higher Alberta crude oil prices has not yet been determined. It is also hoped the federal government will modify its tax position.

For the past five years, lease and royalty regulations applying to federal lands have been unclear. If planning for exploration in these lands is to be done with assurance, stable and reasonable regulations on leases and government share must be put in place quickly.

Late in November, the federal Minister of Energy, Mines and Resources announced that exports of Canadian crude oil would be curtailed, in accordance with the recommendations of the National Energy Board. In January of 1975, authorized exports were reduced to 800,000 barrels per day. Exports averaged about 900,000 barrels per day in 1974. At the lower level of exports, Imperial's production of crude oil would be reduced by 30,000 barrels per day. In November, the National Energy Board also started hearings for the purpose of establishing a new policy regarding exports of natural gas.

The federal government's "voluntary" freeze on prices of domestic crude oil and natural gas, and on products made from domestic crude, remained in effect during 1974. The export tax on crude oil was increased during the year. The federal government utilized revenues from the export tax to provide compensation payments to offset increases in the cost of imported crude oil and products in eastern Canada. Companies receiving compensation were required to adhere to product-price guidelines. Early in 1975, the federal government had legislation on its order paper that, if passed, will allow it to set prices of Canadian crude oil and natural gas sold in interprovincial trade.



Effects of chemicals on tar-sands recovery is studied. More than 1½ tons of sand have gone through this apparatus.

The Impact of Inflation

During 1974, the effects of inflation were felt in every operating department of Imperial. The labor-cost component of manufactured goods increased about 12 percent, in line with the overall increase in the cost of living. Costs of operating materials rose on the average between 20 and 25 percent, and construction materials went up 30 to 40 percent. For example, the cost of casing purchased for Arctic drilling programs increased 74 percent, and the price of phenol, which is used in the manufacture of lubricating oils and some building products, increased 200 percent. Almost all materials and equipment were in short supply, and delivery times increased.

The impact was most evident in the Syncrude project, the estimated cost of which has doubled since September, 1973, to about $2 billion, largely as a result of inflation. Cost increases in 1974 also affected the manufacturing and marketing of petroleum products, and their effects will be felt more strongly in 1975.

The cost of inventories of crude oil and products recorded at December 31, 1974, was $338 million; at the same time in 1973, the amount was $226 million, a difference of 50 percent.

In the face of these rapidly rising costs, Imperial's long-term efficiency programs assume even greater importance.

Petroleum Exploration and Development of New Energy Resources

In 1974, Imperial continued to explore for oil and gas with programs of surveys and drilling that cost more than $68 million. Most of this amount—about $60 million—was spent in the frontier areas, principally in the Beaufort Basin underlying the Mackenzie River Delta area.

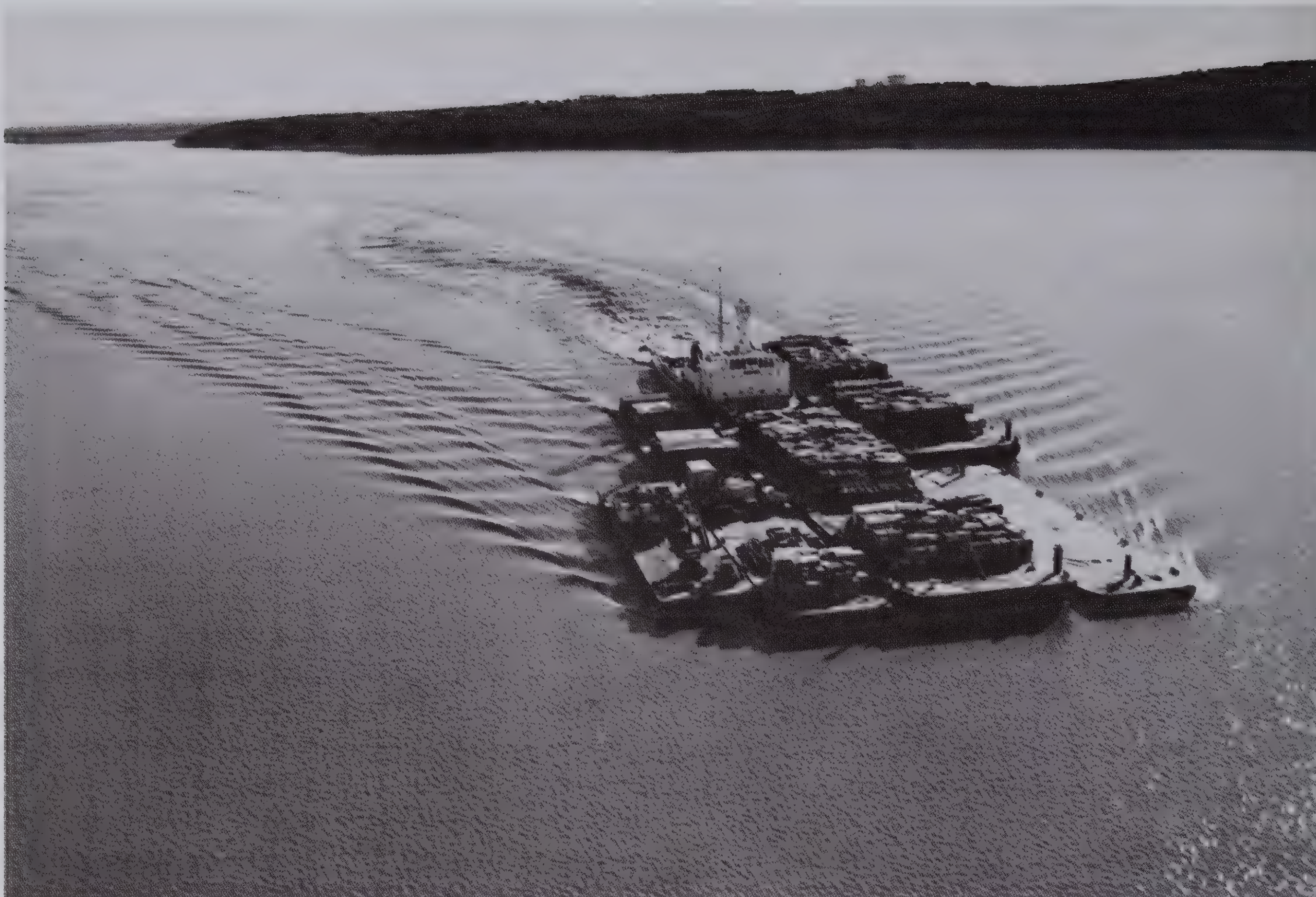
The 1974 Beaufort exploration program was highlighted by a multi-zone oil and gas discovery at Adgo F-28, a well drilled from an artificial island in the Beaufort Sea, eight miles north of the Mackenzie Delta mainland. A second well to delineate this discovery was begun on January 2, 1975, and a third is planned.

Including the Adgo discovery, eight Imperial-interest wells were drilled in the Beaufort Basin in 1974; four by the company itself, three on company acreage by a farm-out agreement, and one with other companies. One of the farm-out wells found a significant gas show, but this was not extended by the drilling of a further well, completed in 1975.

Imperial contributed to the cost of three more wells drilled by others adjacent to the company's acreage in the Beaufort area. One of these discovered oil on a structure that appears to extend under Imperial's acreage.

Drill pipe stockpiled at Tununuk, N.W.T. The cost of casing for Arctic drilling rose a minimum of 43 percent in 1974.

Welder smooths the bead on a weld at the heavy-oil experimental production plant at Cold Lake in Alberta.



Imperial believes the greatest potential for oil and gas in the company's Beaufort Basin acreage lies in prospects under the Beaufort Sea. Imperial holds exploration rights to about three million offshore acres in this region, extending out to water depths of 60 feet. Exploration wells in the offshore areas are drilled from artificial islands built with materials dredged from the sea-bottom in summer or transported across the ice from shore deposits in the winter. The company has completed building five such islands and partially completed the building of a sixth, at a total cost of about $25 million.

One well was drilled in 1974 in the Arctic Islands, completing a farm-in agreement with Panarctic Oil Ltd. The well found no oil or gas.

In the Atlantic, Imperial holds two major groups of exploration permits. One includes about 37 million acres on the Grand Banks where the company has an approximate one-third interest. Six wells were drilled in this area in 1974 at no cost to Imperial. All were dry and drilling was suspended at year end. The second area in the Atlantic includes about 25 million acres of wholly owned exploration permits off Labrador and northeast of Newfoundland. The water over most of these permits is more than 3,000 feet deep. In 1974, seismic surveys were conducted there to define structures suitable for drilling when equipment and technology become available to do so.

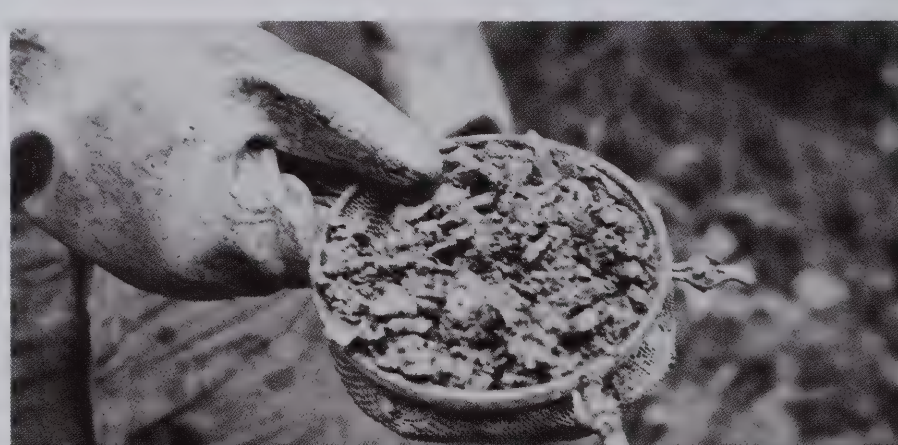
The company participated directly in eight exploratory wells and indirectly in 38 others in an active program in Alberta and northeast British Columbia in 1974, but no significant discoveries were made.

After more than 15 years of research into production of oil from the Athabasca Tar Sands, Syncrude Canada Ltd. started construction of a mining and refining project in 1973 designed to produce 125,000 barrels of oil per day from the sands. Production is planned to begin in 1978.

Syncrude originally consisted of four companies; Imperial was one of these and held a 30-percent interest.

Late in 1974, a revised estimate indicated that the project costs would be $1 billion more than the estimate of September, 1973. On December 4, 1974, one of the four participants—Atlantic Richfield Can-

Loaded with supplies for northern exploration, tug-propelled barges make their way down the Mackenzie River.



Drill cuttings scooped from circulating mud give geologists a quick reading on formations reached by core drilling.

ada Ltd.—withdrew from the project. As a result of this withdrawal and the increase in the project costs, a search began for new participants, covering governments as well as companies in the private sector. When no other companies were able to participate, the federal government and the governments of Alberta and Ontario agreed in principle, subject to the negotiation of a written agreement, to take a 30-percent equity share of the project. The Alberta government further agreed to assume complete responsibility for the utility plant, the pipeline, housing, and highways. The new participating interests in the Syncrude project are divided as follows:

Imperial Oil Limited	31.25 percent
Canada-Cities Service, Ltd.	22 percent
Gulf Oil Canada Limited	16.75 percent
Federal government	15 percent
Alberta government	10 percent
Ontario government	5 percent

For the past 10 years, Imperial has been researching the production of heavy oil from the Cold Lake area of Alberta. Approximately $35 million has been spent to date on three pilot projects to test recovery of the heavy oil by means of steam injection. The research projects were expanded during 1974 and studies to determine the feasibility of commercial production have begun.

Since August, the heavy-oil research has been directed by a new department formed by the company to identify and develop opportunities for new sources of energy from heavy oil, coal and nuclear power. The Department of New Energy Resources is also responsible for supervision of Imperial's participation in the Syncrude project.

In 1974, the company spent $800,000 exploring for new coal deposits and evaluating coal reserves already held.

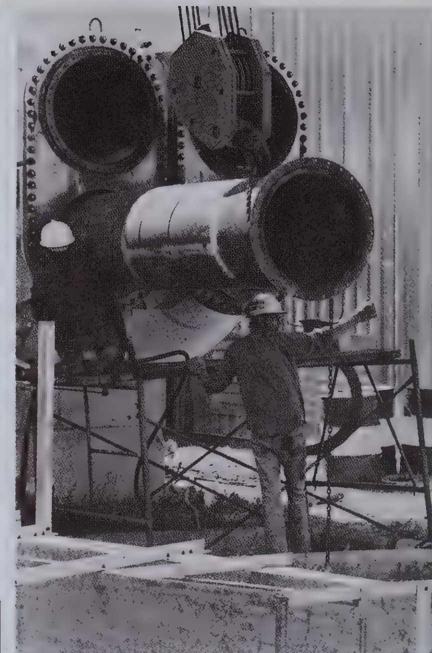
Production of Crude Oil and Natural Gas

Imperial's production of crude oil and natural gas liquids was two percent less than in 1973, reflecting a decline in export demand during the latter half of 1974. Gross production of crude oil and natural gas liquids was 337,000 barrels per day, 16.9 percent of total industry production. The company's natural gas sales declined by 12 percent from 1973, primarily as a result of the increased requirement for injection gas to maintain reservoir pressure in the Golden Spike oil field. Natural gas sales of 421 million cubic feet per day were 6.2 percent of industry sales.

As has been reported previously, the company has conducted a number of programs over the years to increase the efficiency of its production operations. These programs have improved recovery, reduced maintenance costs, conserved energy and made the most efficient use of equipment. One such program, completed in 1974, put 75 percent of the Imperial-operated producing wells under computer control. Investment in this and other efficiency programs totalled $4 million in 1974.

Preliminary planning continued on a plant to process natural gas produced from the Mackenzie Delta. The proposed plant would have a capacity of one billion cubic feet per day and will be located in the Taglu area. Initial work has been completed and bids have been invited from contractors to undertake the detailed design analysis that is a part of any large construction project.

Coal exploration in northwestern Alberta. Drilling mud carries cuttings to the surface for a running check of rock strata.



Fieldgate battery at Judy Creek, Alta., was expanded to handle the increasing volumes of water being produced.

Crew member engaged in lowering bottom-hole pump into an Alberta oil well to increase the rate of crude oil production.

A submission describing the gas-production system was made to the federal government as a preliminary step in obtaining a land-use permit, which determines the environmental guidelines for construction. The submission was made jointly by Imperial and other companies operating in the Beaufort area.

Transportation

In March, 1974, Canadian Arctic Gas Pipeline Limited, of which Imperial is a participant, applied to Canadian and U.S. regulatory authorities for permits to build a pipeline to carry Canadian and U.S. Arctic gas from the Mackenzie Delta and Prudhoe Bay in Alaska south to Canadian and U.S. markets.

Public hearings will begin in Canada and the United States in 1975. Mr. Justice Berger is acting as a one-man board to consider and recommend to the Minister of Indian Affairs and Northern Development the terms and conditions to be placed on the right-of-way through the Northwest and Yukon Territories, taking into consideration the environmental and socio-economic impacts of the proposed pipeline. Hearings began on March 3, 1975.

Imperial believes the pipeline will offer Canadians the opportunity to benefit economically from efficient transportation of large quantities of Canadian and U.S. Arctic gas. The company does not believe any other proposed system could transport Mackenzie Delta gas south as soon or as efficiently.

Over the past four years, CAGSL has spent some $70 million on engineering and environmental feasibility studies. Imperial contributed $2.5 million of this amount.

In 1974, Imperial Oil was one of five companies to form Beaufort-Delta Oil Project Limited. The new company will study problems of constructing and operating a pipeline system to transport oil from the Beaufort Sea and Mackenzie Delta areas to existing oil transportation systems in southern Canada. All available data including data from Arctic gas pipeline studies and Mackenzie Valley Pipeline Research Limited will be used to prepare an application to build an oil pipeline.

Petroleum Products

Imperial refineries processed 438,000 barrels of crude oil and equivalents per day in 1974, one percent less than in 1973. The decrease resulted from a decline in foreign and domestic demand in the second half of the year.

The first processing units at the new 140,000 barrels-per-day refinery at Strathcona, near Edmonton, will begin operation in the second quarter of 1975, with additional units scheduled to start up later in the year. After Strathcona opens, Imperial refineries at Edmonton, Calgary, Regina and Winnipeg will be phased out of service.

Imperial continued to assist employees who will be affected by these changes. To date, more than 240 employees from the

Calgary, Winnipeg and Regina refineries have moved to positions in other company operations or have been guaranteed transfers.

In 1974, work was almost completed on an automated distribution terminal at Calgary. Storage and distribution facilities at Regina and Winnipeg are being modernized, and the work will be completed in 1975. A new pipeline is being built to connect storage and distribution facilities at Winnipeg with the Interprovincial Pipe Line system at Gretna, Manitoba. The cost of this system, including the Strathcona refinery, distribution terminals and pipelines, is expected to reach $285 million.

During the year, work continued on a $63-million program of capital investment

New products tanker, the 12,600-ton Imperial St. Clair, undergoes trials in Lake Ontario before delivery.

The main processing area of the Strathcona refinery during construction last July. First units start up in 1975.

Plants brighten the lobby of the administration building at Strathcona refinery.

Geologist examines rock core for uranium at Imperial's Chioak prospect in Ungava. "Chioak" is Eskimo for sandstone.

to modernize the Montreal East refinery. The refinery's processing units as well as its blending and shipping facilities will be placed under computer control to improve efficiency. New equipment is also being installed to permit processing of a wider range of crude oils.

To help meet demand in eastern Canada when oil exports were cut back by some Middle East countries last winter, Imperial provided about eight million barrels of western Canadian crude for shipment east via the St. Lawrence Seaway and the Panama Canal early in 1974. Of this amount, Imperial processed more than 1.5 million barrels.

Imperial Oil's 1974 sales of heating fuel, gasoline, motor oil and other refined petroleum products reached $1,789 million. Total daily sales volume was 443,000 barrels, a decrease of one percent from 1973.

The manufacture and sale of petroleum products contributed to company earnings in 1974, but the timing and rigidity of price controls prevented Imperial from retaining the full benefit of efficiencies achieved and from recovering all its increased costs for refined products.

During 1974 Imperial introduced Esso 2000 unleaded gasoline to meet emission-control needs of some 1975 cars.

On September 4, 1973, the Canadian oil industry voluntarily acceded to a request by the federal government to freeze the selling price for motor gasoline, diesel fuel, and home heating fuel. On January 31, 1974, the freeze was extended to include the prices of virtually all petroleum products sold in Canada. Price increases were to be considered if they were required to recover higher costs for crude oil, higher operating costs that arise from inflation, higher inventory costs and other cost increases that affect working capital, and higher costs caused by changes in federal sales tax.

On May 15, increases were authorized in the prices of all petroleum products to recover higher crude-oil and operating costs.

In May of 1974, the province of British Columbia established a system of guidelines on prices of major oil products. Nova Scotia instituted controls on prices of gasoline and fuel oil in December, 1973. Both these provinces instituted price controls on oil products during the 1930s; both dropped them in the 1950s as being against the interests of consumers.

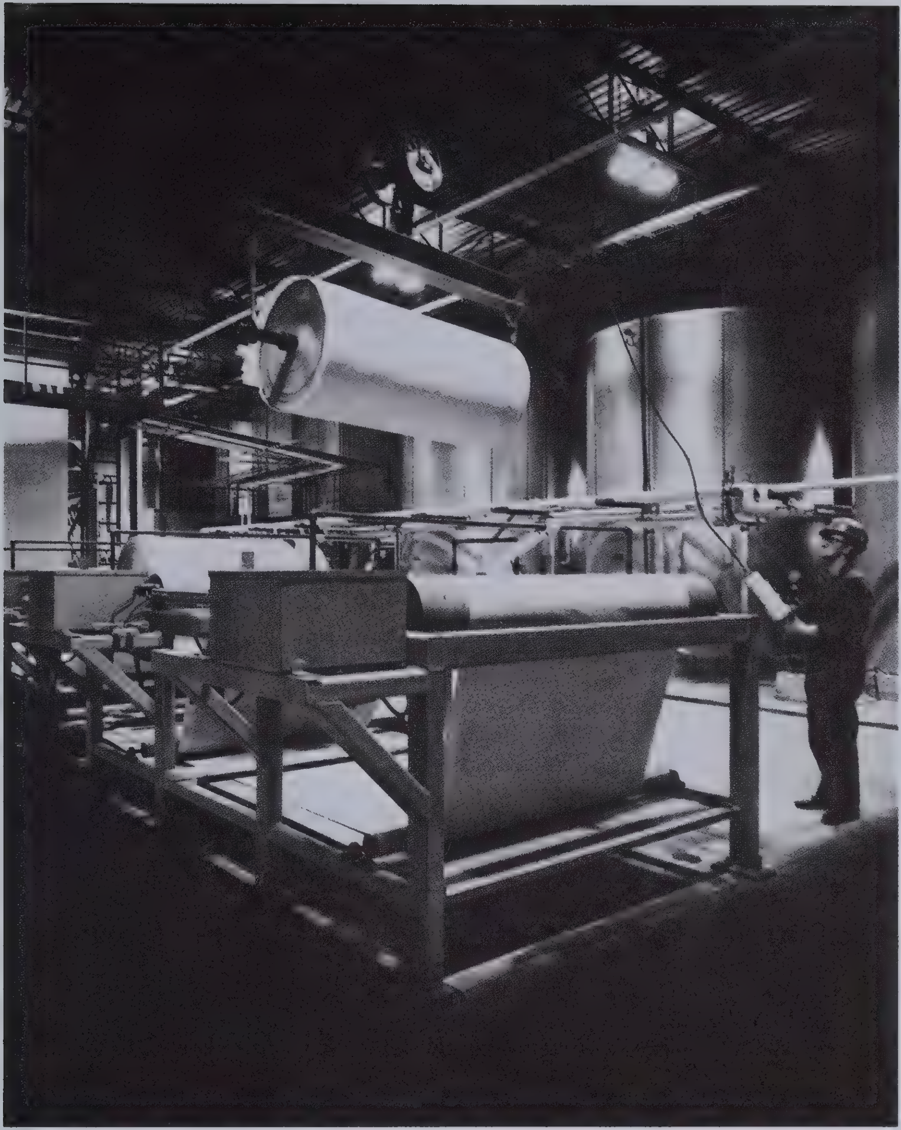
In September, Esso 2000 unleaded gasoline was introduced to meet new design requirements for the control of exhaust emissions from some 1975 cars. It is available at Esso stations in communities with populations of more than 5,000, at Esso stations on major highways, in major vacation areas, and at border crossings.

Imperial accelerated its program to establish self-service gasoline outlets in major Canadian cities. The program is designed to give the company greater flexibility in responding to the needs of motorists.

Chemical and Fabricated Products

Continued strong demand for petrochemicals, fertilizers, and building materials, coupled with good plant performance, resulted in improved earnings for Imperial's chemical and building materials operations in 1974. Sales of these materials reached $318 million, an increase of $120 million over 1973.

Construction began on an addition to the sulfuric and phosphoric acid plants manufacturing fertilizer at Redwater, Alberta.



The addition, costing $8 million, will add 55,000 tons to the capacity of the plants, bringing total production capability to approximately 700,000 tons annually.

At Sarnia, capital and operating programs that have increased production of ethylene about four percent annually were continued, helping to supply the growing demand of customers in the Sarnia area.

Demand for twine and rope has exceeded the production capacity of the Poli-Twine plant at Saskatoon, and production was begun at a second plant in Belleville, Ontario. Imperial's first commercial plant to produce the lightweight phenolic insulation ESFEN began production at Rexdale, Ontario, late in 1974.

Business Development

Evaluation of the lead-zinc deposit discovered by Imperial at Gays River, N.S., in 1973 outlined around 12 million tons of ore containing seven percent lead and zinc. The company is planning to recover bulk samples to confirm this evaluation

New plant to manufacture fire-resistant phenolic foam insulation ESFEN started at Rexdale, Ontario, in 1974.

and for metallurgical testing. Imperial has a 60-percent interest in the venture.

Imperial also continued an active minerals-exploration program in 1974.

During the year, the company's wholly owned subsidiary, Devon Estates Limited, in conjunction with Nu-West Development Corporation, continued to develop 228 acres of former Imperial refinery lands in Calgary. The land is being subdivided into residential building lots, serviced, and sold to builders. The second phase of this three-phase project was nearly completed, and purchase deposits have been received on 250 lots.

Environmental Protection

Despite other pressing public issues, Imperial continues to regard protection of the environment as a matter of priority. All operating divisions continued their programs to improve plant aesthetics, reduce noise, and prevent the escape of hydrocarbons into the air and waters.

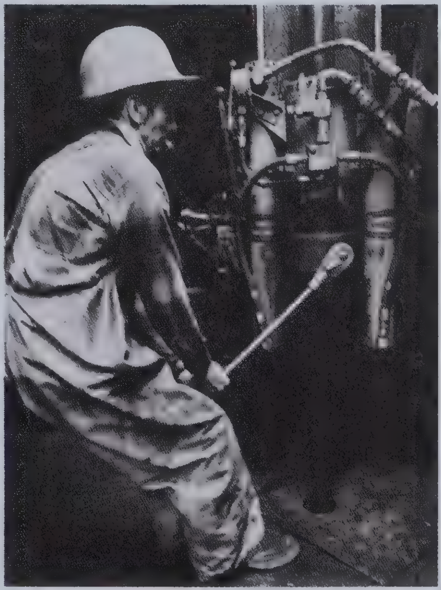
Spending on capital projects for environmental protection in 1974 totalled $39 million, 11 percent of the company's total capital expenditures. Of this, $23 million was spent to reduce atmospheric and water pollutants from refinery operations. This was part of a major program in which another $50 million will be spent to further improve the quality of waste water from refineries.

Imperial and other participants in the Canadian Arctic Gas Pipeline project, the Syncrude project, and the Mackenzie Delta gas-plant project, completed studies to ensure that construction and operating activities will be compatible with the natural environment.

Employee Relations

It is Imperial's policy to pay wages and salaries and to make benefits at least equal to those an employee would receive for comparable work at other companies. Accordingly, average employee pay and benefits increased from $13,900 to $17,200 in 1974. This increase is due to the effects on salaries and benefits—mainly pensions—of inflation.

In 1969, Imperial Oil began to ease the effects of inflation on the pensions of its annuitants. In 1974, a further adjustment was made in pension payments to annuitants who retired prior to December 31, 1972—approximately 90 percent of retired employees. During the year, extended disability benefits and widows' benefits were increased.



Diamond drilling has indicated a lead-zinc deposit at Gays River, N.S., estimated to contain significant reserves.

Consolidated Financial Statements
For the years 1974 and 1973
together with
Ten-Year Financial and
Operating Summary

Auditors' Report

To the shareholders of IMPERIAL OIL LIMITED

We have examined the Consolidated Statements of Earnings and Source and Use of Working Capital of Imperial Oil Limited and its subsidiary companies for the year ended December 31, 1974 and the Consolidated Statement of Financial Position as at that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the results of operations and source and use of working capital of the companies for the year ended December 31, 1974 and their financial position as at that date, in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change to the tax allocation basis of accounting for the effect of producing-well costs as explained in note 1, on a basis consistent with that of the preceding year.

Price Waterhouse & Co.,
Chartered Accountants,
Toronto-Dominion Centre,
Toronto, Ontario.

March 6, 1975

Summary of Accounting Policies

Principles of Consolidation
The consolidated financial statements include the accounts of Imperial Oil Limited and its subsidiary companies, all of which are wholly owned.

The principal investments in other companies are accounted for on the equity basis, and Imperial's share of their earnings before income taxes is shown as "Equity in earnings of principal investments" in the Consolidated Statement of Earnings. The income taxes related to these earnings are included in "income taxes" in the same statement. These investments are carried in the Consolidated Statement of Financial Position at Imperial's share of the book value of their underlying net assets. Other investments are carried at cost, and income from them is recorded only as dividends are declared.

A list of all subsidiary companies and the principal investments in other companies is shown on pages 1 and 2 of this report.

Depreciation and Amortization
Depreciation of plant and equipment is based on the estimated service life of the asset, calculated on the straight-line method. Amortization of producing-well costs and of capitalized producing-lease costs is determined on the unit-of-production method.

Exploration
Exploration expenditures, including costs of acquisition and retention of exploration acreage, geological and geophysical surveys, and unsuccessful drilling are charged against earnings as incurred, except to the extent they relate to the acquisition of acreage expected to be productive, based on the companies' past experience.

Inventories
Inventories are recorded at cost under the first-in, first-out method, which is less than net realizable value.

Income Taxes
Income tax legislation permits certain costs and revenues to be deducted or added in calculating taxable income in years other than the year recorded in the financial statements. The companies follow the tax-allocation basis of accounting for income taxes whereby deferred income taxes are recorded for the effect of differences between the time such costs and revenues are recognized for tax purposes and the time they are recorded in the financial statements. The resulting accumulated differences between the taxes actually paid and those charged to earnings are shown in the Statement of Financial Position as "Deferred Income Taxes".

Employee Retirement Plans
The companies have a number of retirement plans covering substantially all employees. Costs of these plans are charged to earnings and funded on the basis of actuarial valuations made at least every third year. Increases in the estimated present value of projected benefits created by revisions to the plans are amortized over 15 years. The effect of inflationary forces, which cause salary levels to rise at a rate faster than that included in the actuarial valuations, is provided for currently. Increases or decreases resulting from other factors in the actuarial valuations are amortized over five years.

The companies' policies with respect to funding adhere to government regulations and in certain cases the companies fund in a shorter time than required by law.

Federal Export Tax
The federal tax on exports of crude oil and products collected and remitted to the government is exluded from revenues and expenses reported in the Consolidated Statement of Earnings.

Federal Import Compensation
As a condition for the receipt of compensation, the company has maintained its selling prices in line with government guidelines. Amounts received or claimed under the federal oil import compensation program are deducted from the cost of crude oil and product purchases.

Imperial Oil Limited and Subsidiary Companies

CONSOLIDATED STATEMENT OF EARNINGS FOR THE YEARS 1974 AND 1973	1974	1973
	millions of dollars	
Revenues		
Petroleum products	1,789	1,316
Crude oil and natural gas (including sale of purchased crude: 1974—$1,372: 1973—$917)	1,424	946
Chemicals and building materials	318	198
Other products	76	74
Other operating revenues	38	46
Equity in earnings of principal investments	36	44
Investment and other income	32	24
	3,713	2,648
Expenses		
Crude oil and product purchases	2,244	1,475
Operating and exploration	363	299
Selling and administration	343	305
Depreciation and amortization	80	76
Income taxes (Note 6)	266	146
Taxes other than income taxes	109	105
Interest on long-term debt	18	15
	3,423	2,421
Earnings for the year	290	227
per share	$ 2.23	1.75

CONSOLIDATED STATEMENT OF SOURCE AND USE OF WORKING CAPITAL FOR THE YEARS 1974 AND 1973	1974	1973
	millions of dollars	
Source		
From operations (Note 10)	446	352
Debentures issued and other long-term debt	109	10
Capital stock issued	1	12
Sales of property, plant, and equipment	13	8
Decrease in other assets	4	5
	573	387
Use		
Capital expenditures for property, plant, and equipment	340	269
Dividends	104	104
Reduction of long-term debt	68	7
	512	380
Increase in working capital	61	7

The Summary of Accounting Policies and Notes to the Financial Statements are part of these statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 1974 AND 1973

	1974	1973
	millions of dollars	
ASSETS		
Current Assets		
Cash, including time deposits	107	60
Marketable securities, at the lower of cost and market	42	12
Accounts receivable (Note 9)	549	429
Inventories		
crude oil and products	338	226
materials and supplies	42	28
Prepaid expenses	7	7
Total current assets	1,085	762
Investments (Note 2)	85	81
Long-term accounts receivable and other assets (Note 4)	56	61
Property, plant, and equipment (Note 5)	1,475	1,228
Total assets	2,701	2,132
LIABILITIES AND DEFERRED CREDITS		
Current Liabilities		
Short-term notes	51	15
Accounts payable and accrued liabilities (Note 9)	438	309
Income and other taxes payable	139	42
Total current liabilities	628	366
Long-term debt (Note 3)	265	224
Employee annuity and contingent obligations	11	12
Deferred income taxes	348	268
Total liabilities and deferred credits	1,252	870
SHAREHOLDERS' EQUITY		
Capital Stock (Note 7)	288	287
Earnings retained and used in the business		
At beginning of year, as previously reported	1,017	893
Adjustment for change to tax allocation for producing-well costs (Note 1)	(42)	(41)
As restated	975	852
Earnings for the year	290	227
Dividends (per share, 1974—80¢; 1973—80¢) (Note 7)	(104)	(104)
At end of year	1,161	975
Total shareholders' equity	1,449	1,262

The Summary of Accounting Policies and Notes to the Financial Statements are part of this statement.

Approved by the Board

Imperial Oil Limited and Subsidiary Companies

Notes to the Financial Statements

1. Change in Accounting Policy
In 1974, the companies adopted the tax-allocation basis of accounting for income taxes for producing-well costs. The effect of this change, which has been applied retroactively, was to reduce retained earnings at January 1, 1973, by $41 million. The increase to 1974 income tax expense was nil (1973—$1 million). The cumulative increase of $42 million has been added to deferred income taxes as at December 31, 1974.

2. Investments

	1974	1973
	millions of dollars	
At equity		
with quoted market value 1974—$104 million (1973—$182 million)	63	60
without quoted market value	21	20
At cost	1	1
	85	81

3. Long-Term Debt

	1974	1973
	millions of dollars	
3⅝% Sinking Fund Debentures, 1955 Issue, maturing February 1, 1975	20	20
6¾% Sinking Fund Debentures, 1967 Issue, maturing January 2, 1987	40	40
7¼% Serial Debentures, 1968 Issue, maturing January 2, 1976	4	6
7⅜% Sinking Fund Debentures, 1968 Issue, maturing January 2, 1988	40	40
8½% Sinking Fund Debentures, 1969 Issue, maturing August 15, 1989	22	50
6⅞% Serial Debentures, 1972 Issue, maturing February 15, 1981	15	15
7¾% Sinking Fund Debentures, 1972 Issue, maturing February 15, 1992	35	35
10⅝% Sinking Fund Debentures, 1974 Issue, maturing August 15, 1994	100	—
Interest-free loans repayable in U.S. funds no later than May 1, 1982*	15	20
	291	226
Amount due within one year	26	2
	265	224

Sinking fund and maturity payments required in the next five years on the above debentures are: 1975—$26 million; 1976—$8 million; 1977—$9 million; 1978—$9 million; 1979—$9 million.

*Each of two gas pipeline companies had agreed to advance U.S. $20 million in interest-free loans at the rate of U.S. $5 million per year from 1972 to 1975. Up to an additional U.S. $100 million of interest-free loans was to be advanced by each company if permits were obtained and deliveries of Arctic gas were commenced. One of the agreements has been revised to eliminate the U.S. $20 million obligation and the U.S. $15 million paid towards it has been refunded; in addition, the maximum obligation for further advances was reduced from U.S. $100 million of interest-free loans to U.S. $80 million. A similar revision in the obligations under the other agreement is under review. The new arrangements will allow the companies to reduce their commitments of gas and increase the price to these pipeline companies.

On Feburary 25, 1975, the company issued $100 million 9¾% Sinking Fund Debentures maturing February 15, 1995. Sinking fund requirements are $5 million in each of the years 1981 to 1994 inclusive.

4. Long-Term Accounts Receivable and Other Assets

	1974	1973
	millions of dollars	
Long-term accounts receivable	44	52
Funds on deposit with governments and others	4	5
Deferred charges	8	4
	56	61

5. Property, Plant, and Equipment

	1974	1973	1974	1973
	Cost		Accumulated Depreciation and Amortization	
	millions of dollars			
Exploration and production	763	649	277	255
Crude oil refining	852	703	322	311
Chemicals and building materials	198	187	106	97
Marketing	360	371	144	150
Transportation	209	184	89	84
Other	50	45	19	14
Total	2,432	2,139	957	911
Net investment	1,475	1,228		

The charge against earnings in 1974 for amortization of producing-well costs and capitalized producing-lease costs amounted to $11 million (1973—$12 million) and the accumulated provision at December 31, 1974, amounted to $161 million.

6. Income Taxes

	1974	1973
	millions of dollars	
Imperial Oil Limited and subsidiaries		
current	168	67
deferred	80	57
Equity in principal investments	18	22
	266	146

Income taxes reflect the estimated effect of the income tax changes proposed in the November 18, 1974, federal budget and the subsequent provincial pronouncements.
The operations of the companies are complex and the related income tax interpretations, regulations and legislation are continually changing. As a result, there are usually some tax matters in question. The companies have made what they believe are adequate provisions for income taxes payable.

7. Capital Stock
By supplementary letters patent dated May 1, 1974, 160,000,000 shares without nominal or par value of the company were reclassified as Class A convertible common shares, and the authorized capital of the company was increased

by the creation of 160,000,000 shares designated Class B convertible common shares without nominal or par value. The company cannot issue any Class A shares or Class B shares if, after such issue, the number of authorized but unissued Class A shares or Class B shares would be insufficient to satisfy the conversion privileges of the other class. The shares of each class are voting, convertible into one another on a share-for-share basis, and rank equally with respect to dividends and in all other respects. The only distinction between the two classes is that in the case of the Class B shares, the directors of the company, in declaring a cash dividend, may specify that the dividend shall be paid out of tax-paid undistributed surplus on hand or out of 1971 capital surplus on hand (as defined in the Income Tax Act of Canada). If any cash dividend is declared on the Class B shares, the directors must declare at the same time a cash dividend on each Class A share in an amount equal to the cash dividend being paid on each Class B share plus, in the case of such dividend paid out of tax-paid undistributed surplus on hand, the amount of the tax that was paid to create the tax-paid undistributed surplus applied toward the dividend on each Class B share. The tax paid with respect to Class B dividends is included in "Dividends" in the Consolidated Statement of Financial Position.

Authorized
December 31, 1973—160,000,000 shares without nominal or par value
December 31, 1974—160,000,000 Class A convertible common shares without nominal or par value
—160,000,000 Class B convertible common shares without nominal or par value

Issued
December 31, 1973—130,117,139 shares for $287 million
December 31, 1974—129,074,145 Class A convertible common shares for $286 million
—1,114,401 Class B convertible common shares for $2 million

Under the company's 1965 stock option plan, employees may be granted options to purchase unissued common shares of the company at not less than 95 percent and under the 1970 plan at not less than 90 percent of the market price on the date of granting the options. As of December 31, 1974, there were outstanding options to purchase shares at prices ranging from $12.765 to $38.14. Options for 610,390 shares may be exercised currently, for 181,145 shares after July 16, 1975, for 139,990 shares after July 17, 1975, and for 181,145 shares after July 16, 1976. Included in the above are 269,770 shares under option to directors and officers. In 1974, the company issued 71,407 shares for $1,263,000, under the terms of the plans.

8. Remuneration of Directors and Officers

In 1974, the aggregate remuneration of eight directors and two past directors of the company when serving as both directors and officers was $1,131,000. In addition, the aggregate remuneration of eleven other officers and one past officer when serving only as officers was $716,000. All directors and officers are full-time employees of the company.

9. Amounts Owing to and from Affiliated Companies

Amounts owing to and from affiliated companies, all of which arose in the normal course of operations, were $53 million and $2 million respectively at December 31, 1974, ($67 million and $2 million respectively at December 31, 1973.)

10. Working Capital Provided from Operations

	1974	1973
	millions of dollars	
Earnings for the year	290	227
Adjustments for		
depreciation and amortization	80	76
deferred income taxes	80	57
excess of equity earnings over dividends declared	(4)	(8)
	446	352

11. Employee Retirement Plans

The estimated market value of the pension-fund assets at December 31, 1974, was $200 million, which approximates the value of the vested benefits at that date. The estimated present value of all future benefits exceeds the market value of the fund by some $100 million, and this amount is being amortized in accordance with accepted practices as outlined on page 22. Most of this future obligation results from improvements in benefits, including those effective January 1, 1975, for both annuitants and employees. The remainder can be attributed to recent adverse market conditions.

The companies have charged $35 million to earnings in respect of retirement plans in 1974 (1973—$11 million).

12. Contingencies and Commitments

Through Syncrude Canada Ltd., the company is a participant in the construction of a plant to produce synthetic crude oil from the Athabasca tar sands. As a result of the withdrawal of one of the participants in December, 1974, new arrangements have been made and in February, 1975, agreement was reached in principle that, subject to the negotiation of a final written agreement, the company's interest in the project will increase from 30 percent to 31¼ percent. The project is currently estimated to cost about $2 billion, of which the company's share will amount to approximately $625 million.

The company has guaranteed or otherwise agreed to protect obligations of others in the principal amount of $12 million. Rentals and commitments payable by the companies under long-term agreements approximate $17 million annually.

TEN-YEAR FINANCIAL AND OPERATING SUMMARY GLOSSARY OF TERMS

Earnings as a Percentage of Capital Employed

Earnings after income tax plus net interest expense expressed as a percentage of average capital employed. Capital employed is the total of assets less current liabilities.

Earnings as a Percentage of Shareholders' Equity

Earnings after income tax expressed as a percentage of weighted average shareholders' equity. Shareholders' equity is capital stock plus earnings retained and used in the business.

Payroll and Benefits per Employee

Total payroll and benefits for full-time employees divided by the average number of employees.

Gross Proved Reserves

The estimated quantity of crude oil, natural gas, natural gas liquids, and sulfur that analysis of geological and engineering data demonstrates with reasonable certainty to be recoverable from known oil or gas fields under existing economic and operating conditions. This data does not include Beaufort Basin discoveries or Syncrude, Cold Lake and other heavy oil deposits.

Imperial Oil Limited and Subsidiary Companies

TEN-YEAR FINANCIAL AND OPERATING SUMMARY (dollars in millions except per-share and per-employee amounts)*

	Revenues									Earnings		
YEAR	Petroleum products	Crude oil and natural gas	Chemicals and building materials	Other products	Other operating	Total operating revenues	Equity in earnings of principal investments	Investment and other income	Total revenues	Total	Per share	Total
1974	$1,789	$1,424	$318	$76	$38	$3,645	$36	$32	$3,713	$290	$2.23	$104
1973	1,316	946	198	74	46	2,580	44	24	2,648	227	1.75	104
1972	1,094	699	155	70	27	2,045	36	23	2,104	153	1.19	77
1971	1,022	650	145	65	25	1,907	32	22	1,961	142	1.10	77
1970	924	534	131	63	28	1,680	28	21	1,729	110	.85	68
1969	877	437	123	59	15	1,511	24	15	1,550	96	.75	68
1968	857	389	115	56	15	1,432	23	15	1,470	100	.78	67
1967	817	321	107	46	8	1,299	22	12	1,333	97	.76	67
1966	784	257	96	39	7	1,183	20	10	1,213	92	.72	63
1965	773	247	85	34	6	1,145	19	9	1,173	84	.66	59

	Taxes and Royalties								Financial Position at Year-End			
YEAR	Income taxes	Federal sales tax	Property and other taxes	Total charged against income	Export tax	Road and other taxes	Total taxes generated	Crown royalties	Current assets	Current liabilities	Current ratio	Working capital
1974	$266	$81	$28	$375	$297	$272	$944	$251	$1,085	$628	1.7	$457
1973	146	70	35	251	16	287	554	81	762	366	2.1	396
1972	95	59	22	176	—	259	435	37	658	269	2.4	389
1971	94	57	20	171	—	245	416	29	625	287	2.2	338
1970	71	52	19	142	—	239	381	26	577	265	2.2	312
1969	62	52	18	132	—	233	365	21	517	216	2.4	301
1968	64	49	17	130	—	221	351	19	498	245	2.0	253
1967	66	47	16	129	—	196	325	17	449	175	2.6	274
1966	57	43	16	116	—	197	313	15	393	143	2.7	250
1965	54	40	14	108	—	184	292	14	402	130	3.1	272

	Exploration and Production							Crude Supply and Utilization		
				GROSS PROVED RESERVES				CANADIAN CRUDE		
YEAR	Gross land holdings (millions of acres)	Net wells drilled exploratory	Net wells drilled development	Crude oil and natural gas liquids (millions of bbls.)	Natural gas (billions of cubic feet)	Gross production crude oil and natural gas liquids (thousands of bbls. per day)	Natural gas sales (millions of cubic feet per day)	Net production	Purchases from others	Domestic sales
1974	66	16	49	1,206	2,607	337	421	224	677	389
1973	89	26	42	1,338	2,868	345	480	275	673	373
1972	88	20	43	1,387	3,060	262	425	224	626	319
1971	87	12	32	1,489	3,188	213	397	183	636	337
1970	64	23	27	1,567	3,328	199	372	170	589	304
1969	45	54	31	1,702	3,340	179	350	154	500	255
1968	46	90	54	1,593	3,117	173	336	150	443	225
1967	45	64	71	1,517	2,860	163	301	141	386	176
1966	50	81	87	1,534	2,964	146	239	127	339	153
1965	51	66	136	1,522	2,706	133	180	115	335	158

*History restated for change to the tax-allocation basis of accounting for income taxes for producing-well costs

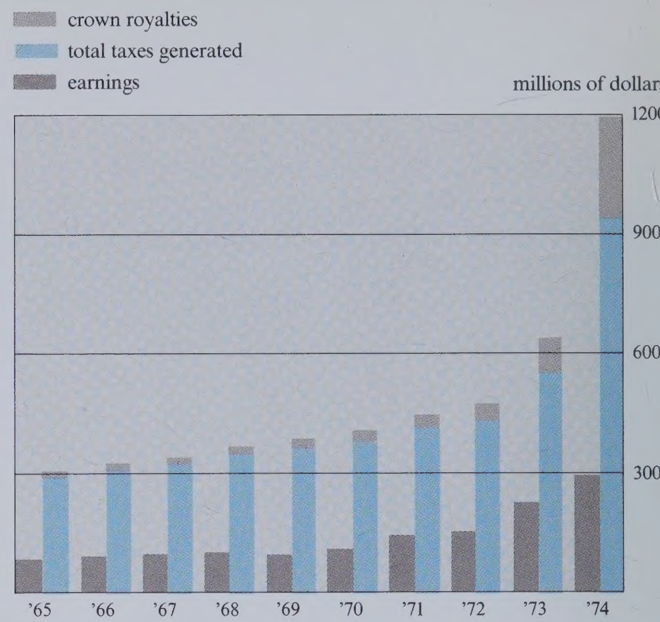
ividends		Working Capital from Operations		Capital and Exploration Expenditures									
As a % of earnings	Per share	Total	Per share	Exploration	Production	Syncrude	Crude oil refining	Chemicals and building materials	Marketing	Transportation and Other	Total	Portion Expensed	YEAR
36	$.80	$446	$3.43	$89	$43	$51	$157	$12	$22	$30	$404	$64	1974
46	.80	352	2.72	66	57	5	146	7	25	27	333	64	1973
50	.60	246	1.91	74	39	3	88	6	27	22	259	58	1972
55	.60	221	1.72	46	41	1	35	5	24	9	161	31	1971
61	.52½	178	1.38	34	28	—	13	5	34	8	122	28	1970
70	.52½	172	1.33	29	20	—	20	17	38	10	134	25	1969
67	.52½	170	1.33	35	25	1	38	46	29	14	188	32	1968
69	.52½	160	1.26	35	24	1	37	22	34	12	165	36	1967
69	.50	149	1.17	41	20	1	25	22	19	12	140	37	1966
70	.46¼	145	1.15	48	22	1	9	9	18	9	116	30	1965

							Shareholders		Employees			
										PAYROLL AND BENEFITS		
Property, plant and equipment net	Capital employed	Earnings as % of capital employed	Total assets	Long-term debt	Shareholders' equity	Earnings as % of shareholders' equity	Number Dec. 31	Shares issued Dec. 31 (thousands)	Number Dec. 31	Total	Per employee	YEAR
$1,475	$2,073	15.6	$2,701	$265	$1,449	21.0	44,433	130,189	16,117	$284	$17,200	1974
1,228	1,766	14.1	2,132	224	1,262	19.1	42,646	130,117	15,936	227	13,900	1973
1,043	1,571	10.8	1,840	221	1,127	14.1	44,171	129,520	15,549	201	13,000	1972
922	1,404	10.8	1,691	166	1,043	14.1	46,188	129,105	15,019	190	12,200	1971
875	1,328	8.9	1,593	173	971	11.6	52,934	128,594	15,543	176	11,200	1970
859	1,285	8.2	1,501	178	928	10.5	50,188	128,528	15,516	162	10,500	1969
811	1,183	9.1	1,428	128	898	11.4	37,780	128,437	15,164	150	9,900	1968
713	1,101	9.5	1,276	102	863	11.6	39,578	128,202	14,933	136	9,100	1967
641	999	9.5	1,142	56	821	11.4	41,088	127,167	14,289	125	8,800	1966
593	960	9.0	1,090	58	789	10.8	41,208	126,885	13,693	111	8,100	1965

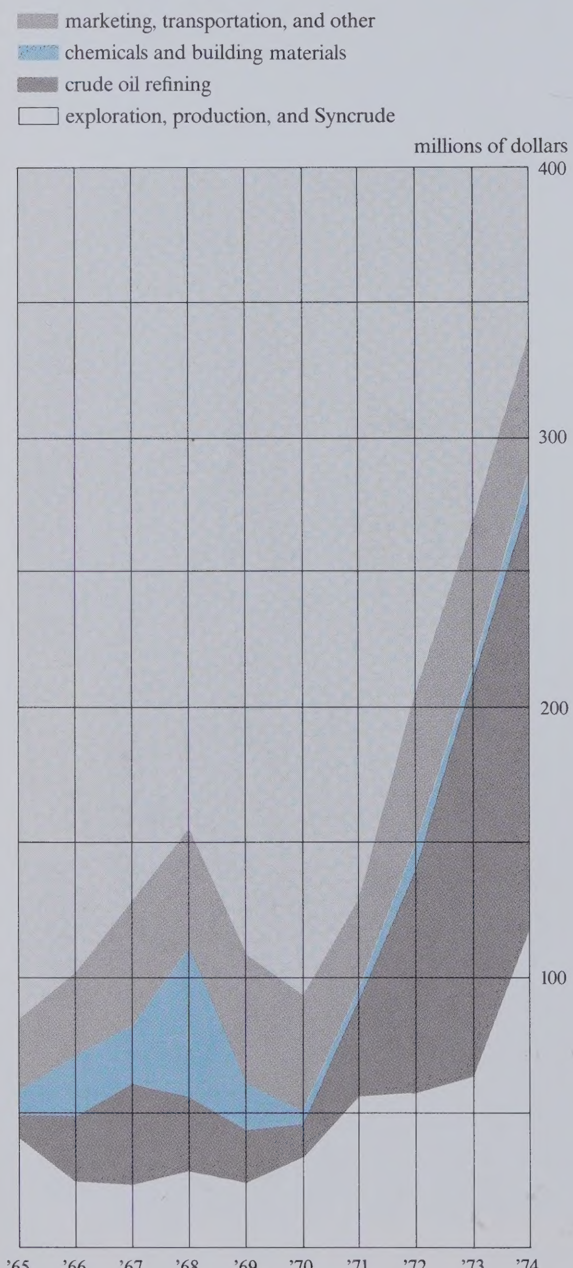
housands of barrels per day				Petroleum Products—thousands of barrels per day						
	IMPORTED CRUDE					SALES				
Export sales	Used in Imperial refineries	Purchased for Imperial refineries	Total crude purchases	Crude processed	Refinery capacity Dec. 31	Gasolines	Middle distillates	Other products	Total	YEAR
246	266	172	849	438	479	181	157	105	443	1974
313	262	179	852	441	477	182	160	107	449	1973
288	243	156	782	399	469	158	160	99	417	1972
229	253	159	795	412	447	159	149	98	406	1971
203	252	154	743	406	431	153	151	96	400	1970
162	237	140	640	377	422	151	143	87	381	1969
145	223	136	579	359	405	145	142	91	378	1968
131	220	130	516	350	397	141	138	87	366	1967
94	219	127	466	346	378	136	134	82	352	1966
82	210	122	457	332	370	128	134	83	345	1965

Financial and Operating Trends 1965-1974

EARNINGS COMPARED WITH TAXES AND CROWN ROYALTIES

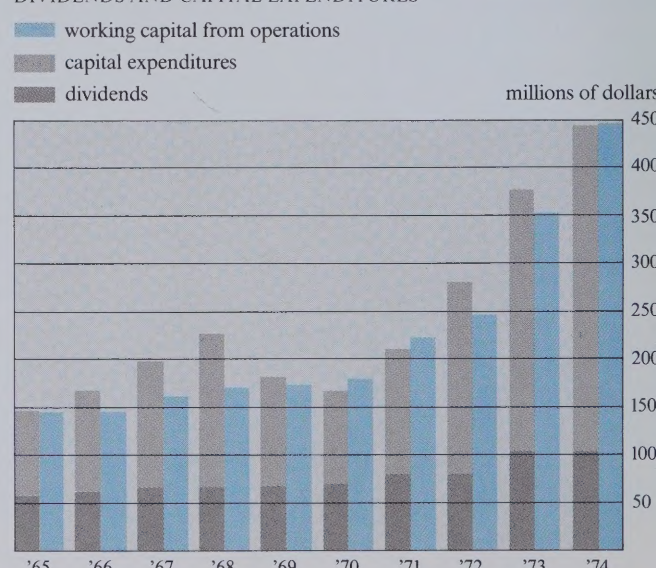


CAPITAL EXPENDITURES

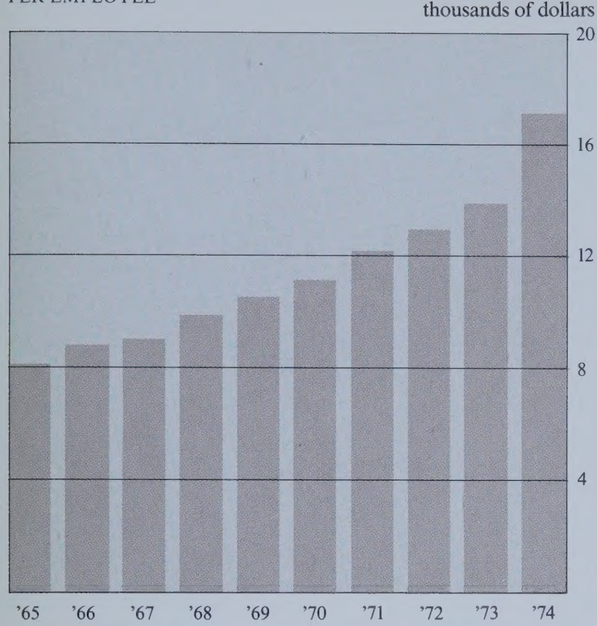


EARNINGS AS A PERCENTAGE OF CAPITAL EMPLOYED

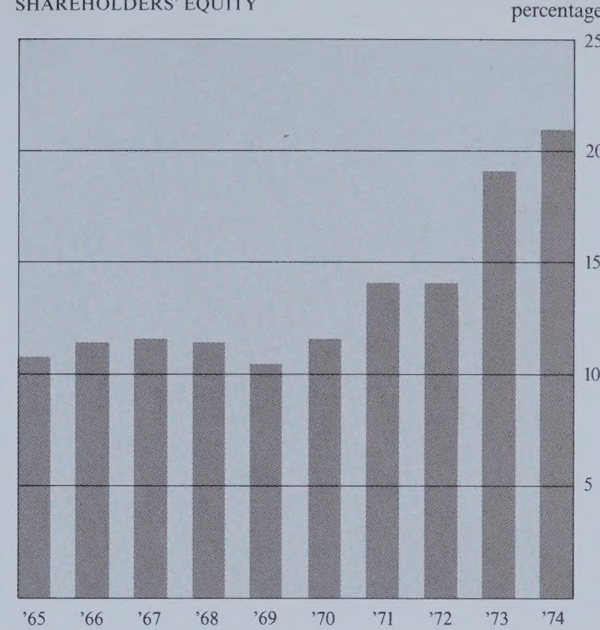
WORKING CAPITAL FROM OPERATIONS COMPARED WITH DIVIDENDS AND CAPITAL EXPENDITURES



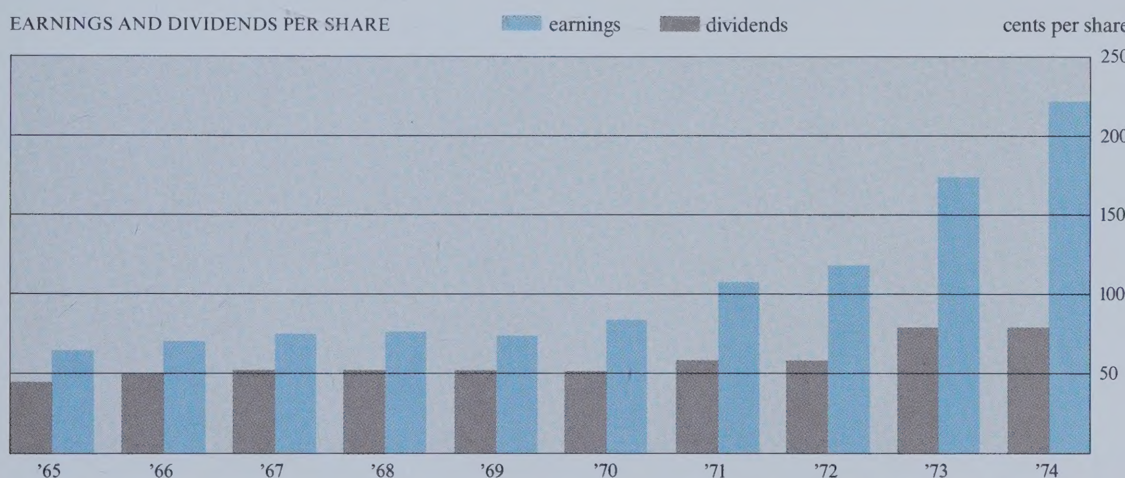
SALARIES, WAGES AND BENEFITS PER EMPLOYEE



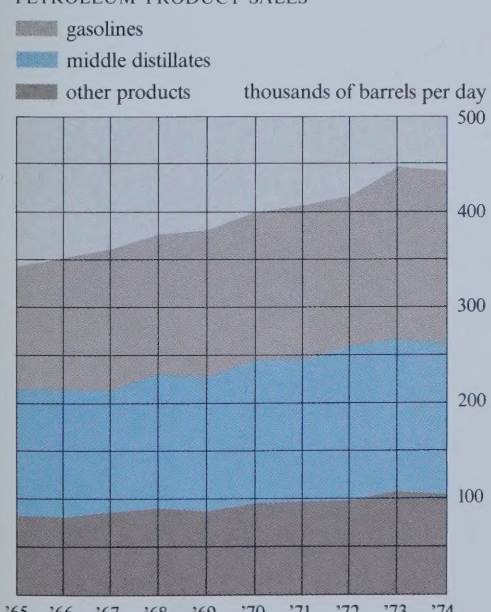
EARNINGS AS A PERCENTAGE OF SHAREHOLDERS' EQUITY



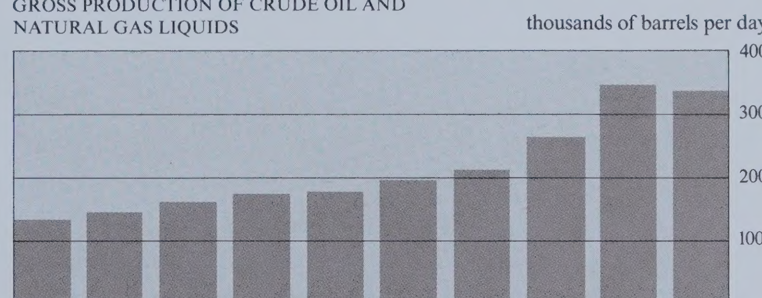
EARNINGS AND DIVIDENDS PER SHARE



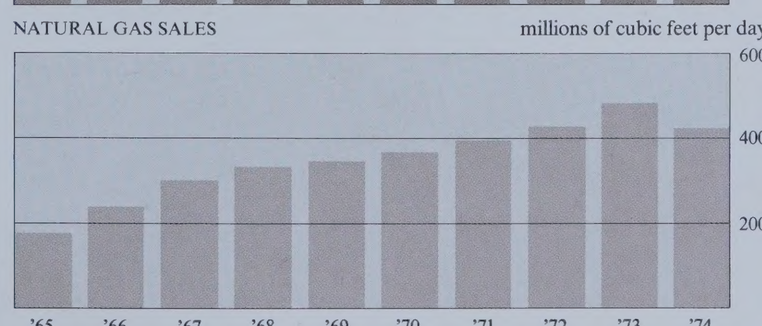
PETROLEUM PRODUCT SALES



GROSS PRODUCTION OF CRUDE OIL AND NATURAL GAS LIQUIDS



NATURAL GAS SALES



Le rapport annuel de l'Imperial Oil est publié en français et en anglais. Si vous préférez le recevoir en français de même que les autres communications à l'intention des actionnaires, veuillez en faire part par écrit à la Division des affaires des actionnaires, Imperial Oil Limited, case postale 4029, Toronto, Ontario M5W 1K3.

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